

**Department of Legislative Services**  
Maryland General Assembly  
2002 Session

**FISCAL NOTE**

Senate Bill 723 (Senator Miller)  
Budget and Taxation

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**Tobacco Settlement Moneys - Attorneys Fees**

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This emergency bill establishes a Special Reserve Fund to retain revenues for future needs. The revenues to be deposited to the fund are: (1) any payments to the State by tobacco manufacturers for legal fees and costs for outside counsel; (2) any disbursement to the State as a result of a decision or settlement resolving the legal fees litigation; and (3) in the event of a decision or settlement, any funds that would have been deposited to the escrow account in the absence of a decision or settlement. On July 1, 2003, the balance in the Special Reserve Fund is transferred to the Revenue Stabilization Fund.

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**Fiscal Summary**

**State Effect:** Potential transfer from special fund (Special Reserve Fund) to general fund revenues in FY 2004. Potential decline in special fund (Cigarette Restitution Fund) expenditures in FY 2002 and FY 2003.

**Local Effect:** Potential decline in revenues and expenditures associated with the potential decline in special fund (Cigarette Restitution Fund) expenditures.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Any payments by tobacco manufacturers for fees and costs for outside counsel, and any proceeds from a decision or settlement would be deposited to the Cigarette Restitution Fund (CRF). In the event of a decision or settlement, funds not placed in the escrow account would be part of the payment deposited to the CRF. Funds

in the CRF are spent through the budget process with at least 90% of the available funds or \$100 million (whichever is less) required to be appropriated, and 50% of the appropriated funds must be for purposes specified in statute.

**Background:** In November 1998, Maryland along with other states entered into the Master Settlement Agreement (MSA) with tobacco manufacturers. Under the agreement the State will receive annual payments on April 15 of each year for perpetuity or until cigarettes are no longer shipped in the United States for consumption. Through fiscal 2003, the State will also receive an annual payment on January 11 of each year. Beginning in fiscal 2008, and through 2017, the State will receive strategic contribution payments. Currently the legal fees for the outside counsel are in dispute. Until the legal fees are resolved, 25% of every payment is being held in an escrow account. It is estimated that as of June 30, 2002, there will be \$123.1 million in the escrow account.

**State Fiscal Effect:** If there were no decision or settlement before fiscal 2004, there would be no impact on State revenues or expenditures.

If there were a decision or settlement before fiscal 2004, funds would be placed in the Special Reserve Fund rather than the CRF. This results in a potential decline in special fund (CRF) expenditures in fiscal 2002 and fiscal 2003 because funds would not be placed in the CRF and spent according to the CRF requirements. In fiscal 2004 there would be a potential decline in special funds and a corresponding potential increase in general funds as a result of the balance transfer required by the bill.

**Local Fiscal Effect:** The CRF has been used to provide funds for certain health programs to local governments. If funds are placed in the Revenue Stabilization Fund rather than the CRF and CRF expenditures decline, funding for certain health programs by local governments may be impacted.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 841 (Delegate Taylor) – Appropriations.

**Information Source(s):** Department of Budget and Management, Department of Health and Mental Hygiene, Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2002  
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Analysis by: Christine A. Scott

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510